2001 Country Reports on Economic Policy and Trade Practices
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CANADA

Key Economic Indicators

(Billions of U.S. dollars unless otherwise indicated) **

	1999	2000	2001 1/
Income, Production, and Employment:			
Nominal GDP	656.4	711.0	727.5
Real Growth Rate (pct)	5.1	4.4	1.4
GDP by Sector (pct):			
Agriculture	2	2	2
Manufacturing	33	33	30
Services	67	67	69
Government	20	20	24
Per Capita GDP (US$)	21,140	22,755	22,948
Total Labor Force (000s)	15,721	15,999	16,214
Unemployment Rate (pct)	7.6	6.8	7.1
Money and Prices (annual percentage growth):			
Money Supply Growth (M2) 2/	3.6	5.5	4.0
Consumer Price Inflation	1.7	2.7	2.9
Exchange Rate: (C$/US$ - annual average) 3/	1.4858	1.4852	1.5382
Balance of Payments and Trade:			
Total Exports (Goods only)	245.8	284.5	278.6
Exports to United States	208.9	244.7	239.6
Total Imports (Goods only)	219.9	244.6	237.9
Imports from United States	167.8	180.2	171.3
Trade Balance (Goods only)	25.8	39.9	40.7
Balance with United States	34.7	50.4	60.0
Current Account Balance/GDP (pct)	0.2	2.5	2.4
Net External Public Debt 4/	379.9	368.6	365.0
Net External Public Debt/GDP (pct) 4/	58.9	51.8	51.0
Fiscal Balance/GDP (pct)	1.3	1.4	1.0
Gold and Foreign Exchange Reserves 2/	28.6	32.4	34.2
Aid from United States	0	0	0
Aid from All Other Sources	0	0	0

** **Conversion from C$ to US$ distorts levels, growth rates and ratios.**

1/ 2001 data is private sector projection.

2/ Actual as of September 30, 2001.
3/ January to September 2001 average.
4/ Canadian government data.

1. General Policy Framework

Canada has an affluent, high-tech industrial economy that closely resembles the United States in its per capita output, market-oriented economic system and pattern of production. The close proximity and integrated manufacturing sectors of Canada and the United States have resulted in the largest bilateral merchandise trade relationship in the world. In addition, the United States and Canada share one of the world's largest bilateral direct investment relationships. In 2000, the stock of Canadian foreign direct investment in the United States, including investments from Canadian holding companies in the Netherlands, was $103.7 billion. At the same time, U.S. foreign direct investment in Canada was $126.4 billion.

In 2000, total two-way trade in goods and services between the United States and Canada was over $470 billion, or $1.3 billion each day. When investment income was included, the daily average was $1.4 billion. This is more than U.S. trade with the rest of the Western Hemisphere, and almost equal to total U.S. trade with the entire 15-country European Union. Indeed, in merchandise alone, Canada exports 86 percent of its goods to the United States, and 72 percent of the goods it imports come from the United States. Consequently, trends evident in the United States economy are mirrored in Canada. For example, in 2000, while the U.S. economy grew by 4.1 percent, Canada's economy expanded by 4.4 percent. By the second quarter of 2001, the U.S. and Canadian economies slowed significantly, growing at annualized rates of 0.2 percent and 0.4 percent, respectively, and indications for an actual decline in growth in both countries in the third quarter were evident in August. The terrorist attacks on September 11, 2001, will exacerbate the negative impact of the current “bust” cycle not just in the United States, but also in Canada.

Corporate profits were projected to be weak in Canada and the United States prior to events on September 11 due primarily to the drop in North American stock markets late last year and the slump in the North American auto industry. In the wake of the September 11 attacks, a number of companies are expected to go bankrupt and assets will be sold off. While there will be some increase arising from rebuilding efforts in New York, analysts believe this will not be enough to offset the general weakness across the United States and therefore, Canada. In addition, several sectors will incur serious layoffs, which will put upward pressure on the unemployment rates in both countries.

Public Sector (government) spending should be relatively strong in Canada in the aftermath of September 11. Transportation infrastructure and enhanced border/airport security will require updated equipment and improvements to existing structures. Military, law enforcement, and intelligence agencies may see increased expenditures. Most of this spending will occur at the federal level, although there is also a need for the provinces and municipal governments to boost spending on infrastructure, including security precautions at power plants, water treatment plants, reservoirs, and transportation. Increased government spending could result in a temporary return to public sector deficits.

2. Exchange Rate Policy

The Canadian dollar is a fully convertible currency, and exchange rates are determined by supply and demand conditions in the exchange market. There are no exchange control requirements imposed on export receipts, capital receipts, or payments by residents or non-residents. The Bank of Canada, which is the country's central bank, operates in the exchange market on almost a daily basis to maintain orderly trading conditions, but does not practice a policy of intervening to pursue exchange rate targets.

3. Structural Policies

Prices for most goods and services are established by the market. The most important exceptions are government services, services provided by regulated public service monopolies, most medical services, and supply-managed agricultural products (eggs, poultry, and dairy products). The principal sources of federal tax revenue are corporate and personal income taxes and the goods and services tax (GST), a multi-stage seven percent value-added tax on consumption. The personal and corporate income tax burden, combining federal and provincial taxes and surcharges, is significantly higher than in the United States, although it varies by province.

4. Debt Management Policies

The Canadian federal government recorded a C$15 billion budgetary surplus in FY2000-2001 (April 1 – March 31), which was used to reduce the national debt. The paydown reflected the federal government's commitment to ongoing debt reduction and cut Canada's debt-to-GDP ratio to 51.8 percent from a peak of 71.2 percent five years earlier. Currently, the Canadian government projects the ratio to drop to 40 percent within the next four years, although increased expenditures on security could slow debt reduction for the next few years.

5. Significant Barriers to U.S. Exports

The 1989 U.S.-Canada Free Trade Agreement and the 1994 North American Free Trade Agreement have eliminated most tariff and many nontariff trade barriers between the two countries. However, nontariff barriers at both the federal and provincial levels continue to impede access of U.S. goods and services to Canada or retard potential export growth in some cases. Canada maintains some restrictions on foreign investment and content in the "cultural industries" and related sectors, including book and magazine publishing, broadcasting, and telecommunications. The United States objects to some of these restrictions and closely monitors new laws and regulations affecting these sectors.

In 1997, a WTO panel supported U.S. complaints against various Canadian measures that limited U.S. access to the Canadian publications market. In mid-1999, Canada replaced these measures with the Foreign Publishers Advertising Services Act. Under an agreement negotiated with the U.S. government, smaller circulation foreign-based publishers are exempt from the Act, as are foreign-controlled publications that contain 15 percent or less of advertising, measured by revenue in a given issue, directed primarily at the Canadian market. Canada committed to increasing this percentage to 18 percent on June 3, 2002.

Canada is a signatory to the GATS Agreement on Basic Telecommunications Services. Recent regulatory changes have opened both long-distance and local telephone services to competition. Canada's Telecommunications Act allows the federal regulator, the Canadian Radio-Television and Telecommunications Commission, to forbear from regulating competitive segments of the industry, and exempts resellers from regulation. Canada retains a 46.7 percent limit on foreign ownership and a requirement for Canadian control of basic telecommunications facilities.

U.S. lumber producers have argued for years that Canadian provinces' forest management practices (e.g., log export restrictions and low "stumpage" fees for harvesting timber on Crown land) constitute subsidies to Canadian lumber exports. The United States and Canada signed a five-year Softwood Lumber Agreement (SLA) in the spring of 1996. Upon the expiry of the agreement at the end of March 2001, several U.S. lumber firms petitioned the U.S. Department of Commerce Import Administration to initiate countervailing duty (CVD) and antidumping (AD) investigations.

Foreign access to the Canadian financial services sector has improved as a result of the NAFTA and the GATS. The WTO Agreement Implementation Act removed long-standing limitations on non-Canadian ownership of federally regulated financial institutions; lifted a market share limitation on foreign banks; and extended NAFTA thresholds for investment review and control to all WTO members. Banking falls exclusively under federal jurisdiction, while the regulation of securities companies falls under provincial control. The banking industry in Canada is governed by the federal Bank Act. The Bank Act and other financial services laws are mandated for review every five years. Amendments in recent years now allow foreign banks to opt out of the federal insurance plan, and foreign banks can now set up two types of branches, full-service and lending. Full-service branches are authorized to take non-retail deposits of not less than C$150,000 (est. $100,000), while lending branches are not allowed to take any deposits and can borrow only from other financial institutions. The purpose of lending branches is to provide new sources of funds to businesses and credit card users. Full-service branches and foreign bank subsidiaries are not allowed to own lending branches.

In Canada's insurance market, companies can incorporate under provincial or federal law. Foreign ownership remains subject to investment review thresholds, and several provinces continue to subject foreign investments in existing, provincially incorporated companies to authorization. Insurance companies may supply their services either directly, through agents or through brokers. Life insurance companies are not generally allowed to offer other services (except for health, accident and sickness insurance), but may be affiliated with, and distribute the products of, a property and casualty insurer. As in banking, a commercial presence is required to offer insurance and reinsurance services in Canada. However, insurance companies may branch from abroad on condition that they maintain trustees assets equivalent to their liabilities in Canada. Insurance companies can own deposit-taking financial institutions, investment dealers, mutual fund dealers and securities firms. In addition, insurance companies may engage directly in lending activities on an equal footing with deposit-taking institutions. The car insurance industry is a publicly-owned monopoly in Quebec, British Columbia, Manitoba and Saskatchewan. All other provinces have regulated premia.

Provincial legislation and liquor board policies regulate Canadian importation and retail distribution of alcoholic beverages. U.S. exporters object to provincial minimum import price requirements, and cost-of-service and packaging size issues hinder the importation of U.S. wine.

Canada applies various restrictions to imports of supply-managed products (dairy and poultry), as well as fresh fruit and vegetables, potatoes, and processed horticultural products. The United States continues to pursue these issues bilaterally.

Canadian customs regulations limit the temporary entry of specialized equipment needed to perform short-term service contracts. Certain types of equipment are granted duty-free or reduced-duty entry into Canada only if they are unavailable from Canadian sources. Although NAFTA has broadened the range of professional equipment permitted entry, it has not provided unrestricted access.

The Canadian Special Import Measures Act (SIMA) governs the use of antidumping and countervailing duties. Canada operates a partially bifurcated trade remedies system under SIMA. The Deputy Minister of Revenue is responsible for initiating investigations and making preliminary and final determinations respecting dumping/subsidizing and preliminary determinations of injury. The Canadian International Trade Tribunal (CITT) is responsible for making final injury determinations. When the SIMA investigation process has resulted in levies imposed on U.S. products, these duties become a constraint on U.S. trade. In addition, customs reclassification of prepared food products to bring them under supply-managed categories is looming as a potential new problem area.

Transboundary environmental issues continue to be a major priority of U.S. citizens from Maine to Alaska. Cooperation dates back to the 1909 Boundary Waters Treaty, and has grown to include collaboration on transboundary watersheds, flooding, air pollution, water use, and other common concerns. Efficient management of this agenda is complicated because of shared federal, state/provincial and local jurisdiction, and by the fact that it is carried out not only through bilateral agreements but by unique institutions such as the International Joint Commission (IJC) and the NAFTA Commission on Environmental Cooperation. Several other provisions of the NAFTA also touch upon environmental regulation, including Chapter 7 on agriculture and sanitary and phytosanitary measures, and Chapter 11, which covers investment.

Section 301 Investigation of Canadian Wheat Board: The United States Trade Representative has initiated an investigation of certain trade practices of the Canadian Wheat Board (CWB) under section 301 of the Trade Act of 1974. This decision is in response to a petition filed by the North Dakota Wheat Commission alleging that the CWB engages in unreasonable trade practices that have resulted in economic harm to U.S. wheat growers. The allegations raise questions about how the CWB markets wheat in the United States and third country markets. North Dakota has requested a delay in the final determination of this case.

6. Export Subsidies Policies

With regard to Canada's policies on milk, the United States maintains that in light of the fact that there are now separate provincial export programs, Canada continues to provide export subsidies on dairy products due to ongoing price differentials between domestic and export milk prices. The United States will continue to press Canada to adhere to its export subsidy reductions as outlined in the WTO Agreement on Agriculture.

7. Protection of U.S. Intellectual Property

Canada belongs to the World Trade Organization (WTO) and the World Intellectual Property Organization (WIPO). Canada is a signatory to the Paris Convention, Berne Convention, Rome Convention, Patent Cooperation Treaty, Strasbourg Agreement, Budapest Treaty, and the Universal Copyright Treaty. The Canadian government has signed the WIPO Copyright Treaty and (WCT) the WIPO Performances and Phonograms Treaty (WPPT), but has not ratified either of them because of intense lobbying by Canadian broadcasters and Provincial Ministers of Education. The United States has ratified the two treaties, which are expected to set the standard for intellectual property protection in future international trade treaties.

The Canadian government is currently reviewing its copyright laws as they pertain to digital copyright issues and compulsory licensing with respect to the Internet. Over 600 submissions have been received, including input from the U.S. National Association of Broadcasters (NAB) and AOL/Time Warner. Once the comment period has concluded and the Government of Canada has studied all submissions, it is scheduled to produce a list of policy options in early 2002. The United States hopes that Canada will ratify both the WCT and the WPPT, and that it will join the other G-7 countries and explicitly exclude Internet retransmission from compulsory licensing.

U.S. recording artists are discriminated against in Canada because the country adheres to the principles of reciprocity, as opposed to a NAFTA obligation of national treatment, regarding royalty payments by radio stations, and the distribution of a private copying levy, to recording artists. Royalty payments by radio stations ("neighboring rights") are distributed solely to domestic artists and artists from countries that are signatories of the Rome Convention, which the United States has not signed. Canada's private copying regime calls for the distribution of a levy on recordable, blank audio media, payable by manufacturers and importers of blank tapes and compact discs, to domestic artists and to artists from countries that have exactly the same levy in place. The United States has a levy for cds but not blank tapes, therefore, U.S. artists do not benefit from Canada's regime. For the past three years, the Office of the United States Trade Representative (USTR) has kept Canada on its "Special 301" Watch List because Canada is applying the principles of reciprocity in its "neighboring rights" and private copying regimes, as opposed to its NAFTA obligation of national treatment. The Government of Canada has broad authority to grant the benefits of these two regimes to other countries, although it has yet to announce a determination regarding the United States.

8. *Worker Rights*

Except for members of the armed forces, workers in both the public and private sectors have the right to associate freely. These rights, protected by both the federal labor code and provincial labor legislation, are freely exercised. Workers in both the public and private sectors exercise their rights to organize and bargain collectively, although some essential public sector employees have limited collective bargaining rights that vary from province to province. Union membership in mid-2000 was 3.7 million people, representing 30.4 percent of Canada's workforce. There is no forced or compulsory labor practiced in Canada.

Generally, workers must be 17 years of age to work in an industry under federal jurisdiction, e.g. railways, airlines and shipping. Provincial standards, covering more than 90 percent of the national workforce, vary but generally require parental consent for workers under 16 and prohibit young workers in dangerous or nighttime work. In all jurisdictions, a person cannot be employed in a designated trade (become an apprentice) before the age of 16. The statutory school-leaving age in all provinces is 16. Federal and provincial labor codes establish labor standards governing maximum hours, minimum wages and safety standards and those standards are respected in practice. Labor laws, rights and regulations of a particular jurisdiction apply universally to all employees and employers operating in that jurisdiction, no distinction is made between domestic Canadian and foreign-based employers and investors.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis **--** 2000

(Millions of U.S. Dollars)

Category		Amount
Petroleum		18,018
Total Manufacturing		50,425
Food & Kindred Products	4,445	
Chemicals & Allied Products	8,929	
Primary & Fabricated Metals	3,630	

Industrial Machinery and Equipment	3,447	
Electric & Electronic Equipment	3,271	
Transportation Equipment	12,707	
Other Manufacturing	13,996	
Wholesale Trade		9,834
Banking		1,999
Finance/Insurance/Real Estate		29,125
Services		8,297
Other Industries		8,724
TOTAL ALL INDUSTRIES		126,421

Source: U.S. Department of Commerce, Bureau of Economic Analysis.